

State Notes

TOPICS OF LEGISLATIVE INTEREST

March/April 2008



State Building Authority Bond Capacity **By Bill Bowerman, Chief Analyst**

Introduction

On January 14, 2008, the Governor transmitted to the Legislature a proposed Capital Outlay budget for fiscal year (FY) 2007-08. The Governor's recommendation included new planning and construction authorizations for projects financed by the State Building Authority (SBA). The recommendation has generated discussion regarding the method of selecting SBA-financed projects (projects included or not included by the Governor) and to what extent the statutory "bond cap" limits the total amount of SBA bonding. This article provides an overview of SBA bond capacity in relation to the Governor's recommendation and current priority requests from community colleges and universities.

Bond Capacity

Public Act 183 of 1964 created the SBA to acquire, construct, furnish, equip, and renovate buildings for the use of the State, including public universities and community colleges. Section 8(15) of the Act prohibits the SBA from having obligations outstanding at any one time in a principal amount totaling more than \$2.7 billion (MCL 830.418). The limitation does not include costs of issuance, debt reserve fund requirements, or bond refunding. Because the State is paying principal and interest from previous obligations at the same time new projects come on-line, it is difficult to predict when the State is close to the cap. The bond cap has been increased sporadically over time. Table 1 provides a history of adjustments to the bond cap.

Table 1	
State Building Authority Bond Limits	
Authorization	Amount (in millions)
Public Act 183 of 1964	\$400.0
Public Act 206 of 1985	\$775.0
Public Act 119 of 1987	\$1,350.0
Public Act 35 of 1993	\$2,000.0
Public Act 127 of 1997	\$2,700.0

Calculating Current Bond Capacity

The SBA section of the FY 2007-08 Governor's recommendation would commit the State to \$561.9 million in new bonding obligations. The recommendation included \$100.0 million for State agency projects, \$314.7 million for projects at 10 universities, and \$105.2 million for projects at 15 community colleges. The recommendation also included a new \$42.0 million Alternative/Renewable Energy Incentive for university and community college projects that meet certain criteria. At the time of the Governor's recommendation, the Department of Management and Budget (DMB) estimated the SBA bond capacity at \$643.5 million based on the assumptions contained in Table 2.



Table 2

Bond Capacity Estimate from Governor's Recommendation	
	Amount (in millions)
Bond Cap	\$2,700.0
Outstanding Obligations (Prior Bond Issues)	(1,811.7)
Current Commercial Paper Projects	(189.1)
Future Projects ¹⁾	(183.8)
Renewed Capacity	128.1
FY 2008-09 Bond Capacity	\$643.5
¹⁾ The above estimate excluded \$49.2 million of construction authorizations for State Facility Preservation Projects, based on the fact that they are not expected to come on-line until 2010.	

Source: State Building Authority

Based on the preceding calculations, the SBA offset all \$561.9 million in Governor recommended SBA projects, \$540.4 of which are planning authorizations, against the estimated \$643.5 million in bond capacity, stating that the Governor's recommendation was \$81.6 million under the bond cap.

While the Governor's recommendation includes proposed planning authorizations to determine remaining bond capacity, Section 242 of the Management and Budget Act (1984 PA 431) provides that appropriations made for studies and initial plans may not be considered a commitment on the part of the Legislature to appropriate funds for the completion of plans or construction of any project (MCL 18.1242).

The SBA's method of determining bond capacity is a conservative method to calculate capacity that avoids the possibility of exceeding the bond cap in future years. However, it limits the possibility of funding additional projects based on the current \$2.7 billion bond cap. Table 3 delineates the State's share of total project costs based on priority requests from institutions (the number-one priority project in the schools' five-year plans), compared with the Governor's recommendation. As shown, if the SBA methodology to calculate bond capacity is used, the Governor's recommendation is \$81.6 million below the bond cap and funding all priority requests would exceed the bond cap by \$225.7 million.



Table 3

FY 2007-08 State Building Authority Projects				
Project	Priority Requests		Governor's Recommendation	
	Total Cost	State Share	Total Cost	State Share
Central – Bio-Tech Building	\$75,000,000	\$40,000,000	\$0	\$0
Eastern – Pray Harold Addition & Modernization	57,000,000	40,000,000	57,000,000	40,000,000
Ferris State – Center for Collaborative Health Education	26,900,000	20,175,000	0	0
Grand Valley State – Learning & Technology Center and Remodeling	70,000,000	40,000,000	0	0
Lake Superior State – School of Business, Economics, and Legal Studies	14,750,000	11,062,500	14,750,000	11,062,500
Michigan State – Life Sciences Bio-Economy Expansion	146,300,000	40,000,000	146,300,000	40,000,000
Michigan Technological – Center for Integrated Learning/Information Tech.	59,000,000	40,000,000	59,000,000	40,000,000
Northern Michigan – Bio-mass Heat and Power Cogeneration Plant	55,000,000	40,000,000	55,000,000	40,000,000
Oakland – Human Health Building	61,748,100	40,000,000	0	0
Saginaw Valley State – Health Sciences Facility	28,000,000	21,000,000	28,000,000	21,000,000
Univ. of Michigan Ann Arbor – Biology Bldg.	175,000,000	40,000,000	175,000,000	40,000,000
Univ. of Michigan Dearborn – Science and Computer Center Renovations	36,000,000	27,000,000	36,000,000	27,000,000
Univ. of Michigan Flint – Murchie Science Laboratory Renovations	20,800,000	15,600,000	20,800,000	15,600,000
Wayne State – Multi-disciplinary Biomedical Research Building	180,000,000	40,000,000	180,000,000	40,000,000
Western – Sangren Hall Building Renovation	56,000,000	40,000,000	0	0
Subtotal - Universities	\$1,061,498,100	\$494,837,500	\$771,850,000	\$314,662,500
Alpena – Transportation Center Construction and Renovations	\$7,830,000	\$3,915,000	\$7,830,000	\$3,915,000
Bay de Noc – Nursing Laboratory and Lecture Hall Remodeling	1,000,000	500,000	1,000,000	500,000
Delta – Health and Wellness F-Wing Renovations	12,800,000	6,400,000	12,800,000	6,400,000
Glen Oaks – No Request Submitted	N/A	0	N/A	0
Gogebic – Special Maintenance	N/A	0	N/A	0
Grand Rapids – Lifelong Learning Center (New Construction)	33,500,000	16,750,000	0	0
Henry Ford – Science Building Improvements	15,000,000	7,500,000	15,000,000	7,500,000
Jackson – Whiting Hall Renovations	21,900,000	10,950,000	0	0
Kalamazoo Valley – Texas Twp Campus Expansion/Student Success Center	12,000,000	6,000,000	0	0
Kellogg – Classroom C Building Renovations	5,000,000	2,500,000	5,000,000	2,500,000
Kirtland – Campus Well Water System Upgrades	1,005,000	502,500	1,005,000	502,500
Lake Michigan – Emerging Technologies Initiative Renovations	21,735,000	10,867,500	21,735,000	10,867,500
Lansing – Science Classroom and Laboratory Expansion	47,300,000	23,650,000	0	0

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FY 2007-08 State Building Authority Projects				
Project	Priority Requests		Governor's Recommendation	
	Total Cost	State Share	Total Cost	State Share
Macomb County – Health Science/Technology Bldg. Phase II	14,500,000	7,250,000	14,500,000	7,250,000
Mid Michigan – Mt. Pleasant Campus Unification	27,121,000	13,560,500	0	0
Monroe – Classroom Technology Center Construction	17,000,000	8,500,000	17,000,000	8,500,000
Montcalm – MTEC Expansion for Job Training	6,000,000	3,000,000	6,000,000	3,000,000
Mott – Mott Library Renovation	8,156,000	4,078,000	0	0
Muskegon – Student Services Center	5,000,000	2,500,000	0	0
North Central – University & Science Center Construction & Renovation	16,323,700	8,161,900	16,323,700	8,161,900
Northwestern – Student Learning Center	13,500,000	6,750,000	0	0
Oakland – Building A Additions/Renovations	32,065,000	16,032,500	32,065,000	16,032,500
St. Clair County – Center for Health and Human Services	7,000,000	3,500,000	0	0
Schoolcraft – Public Safety/Homeland Security Classroom Building	15,000,000	7,500,000	15,000,000	7,500,000
Southwestern Michigan – Technology Building Renovation & Expansion	3,200,000	1,600,000	3,200,000	1,600,000
Washtenaw – Skilled Trades Training Complex	16,000,000	8,000,000	0	0
Wayne County – Northwest Campus Replacement Construction	42,000,000	21,000,000	42,000,000	21,000,000
West Shore – Arts and Sciences Center/Remodeling & Additions	6,900,000	3,450,000	0	0
Subtotal – Community Colleges	\$408,835,700	\$204,417,900	\$210,458,700	\$105,229,400
DMB: Alternative/Renewable Energy Incentive:	\$139,851,100	\$69,925,500	\$83,978,400	\$41,989,200
Department of History, Arts, and Libraries - Warehouse Facility Acquisition	9,690,000	9,690,000	9,690,000	9,690,000
DMB - State Facility Preservation Projects - Phase III	70,310,000	70,310,000	70,310,000	70,310,000
DNR - Forest Fire Experiment Station Replacement	2,100,000	2,100,000	2,100,000	2,100,000
DNR - State Park Improvement Projects	17,900,000	17,900,000	17,900,000	17,900,000
Subtotal – State Agencies	\$100,000,000	\$100,000,000	\$100,000,000	\$100,000,000
TOTAL SBA PROJECTS	\$1,710,184,900	\$869,180,900	\$1,166,287,100	\$561,881,100
AVAILABLE BOND CAPACITY (FY 2008-09): (Over)/Under Bond Cap:		\$643,500,000 (\$225,680,900)		\$643,500,000 \$81,618,900
Notes: The State share for university projects is capped at 75.0% - limited to a maximum State share of \$40.0 million. The State share for community college projects is 50.0%. University and Community College priority requests are based on five-year plans submitted for FY 2008-09, as of 4/23/08.				

Source: Governor's FY 2007-08 Recommendations and Institution Five-year Plans



Conclusion

As noted above, Section 8(15) of the SBA Act provides that the SBA may not have obligations outstanding at any one time in a principal amount totaling more than \$2.7 billion. While using all planning authorizations to calculate how close the State is to the bond cap prevents the potential of hitting the cap in future years, it also provides additional limits on funding current capital outlay needs. Taking full advantage of current bond capacity requires estimating how long authorized projects will be in the planning phase and how long it will take institutions to spend the amount of their required match. The SBA states that annual renewed bond capacity averages approximately \$125.0 million. Based on the cost estimate of requested projects, it is possible that current bond capacity would be sufficient to authorize all of the requested planning projects. Using a projected time line of project completion to calculate bond capacity does have a down side. If authorized projects came on-line earlier than projected, the bond cap would limit the ability of the State to provide its share of project costs. However, if that were to happen, the State has the ability to enact legislation increasing the bond cap. Funding all priority requests also would result in additional State debt. The difference between the Governor's recommendation and funding all priority requests is \$307.3 million. Annual payments to retire that additional debt would be approximately \$30.7 million for 15 to 17 years.